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Wednesday, November 16, 2005

Commercial payments at the Muslim zenith

In the 19th century spectacular Jewish burial caches ("geniza"), totalling over 10,000 items, including over 7,000 documents, were unearthed in old Cairo. Study of these items has shed light on the status of commercial payments in Islamic society (and Jews living within it) before the development of full bills of exchange, deposit banking with loans, and so in 14th century Europe. The Muslim world connected that European world to the highly evolved ancient civilizations, almost unbroken from Sumer to Phoenicia and Persia to the Muslim Caliphate. At the time of the Geniza documents Muslim trading networks spanned much of the globe, from Indonesia to Spain.

Among the finds dating from the Muslim zenith between the 10th and 12th centuries:

Cases, or sealed purses containing a specific number of coins. These had been in use since at least ancient Phoenicia for paying with specific weights of gold or silver. A widely trusted entity (coin exchangers, government mint or treasury officers, or individual merhants) would deposit a specific weight and purity of jewelry or coins in the purse, and seal it. Cases relieved the recipient of having to weigh the coins, substituting trust in the sealer of the purse. Cases remained in common use with the onset of coinage, since coins wore out, depreciating below their face value, and merchants wanted payment by weight, not face value. A widely trusted entity (exchange or government officers, or individual merhants) would deposit a specific weight and purity of jewelry or coins in the purse, and seal it. In Europe cases were far less common. This may be due to less security on the road, or because many Italian and some German cities more frequently reminted worn coins than did the caliphate. In other parts of Europe where coin quality was poor, bank notes and bills of exchange later became the preferred medium of exchange. Cases are still used in modern diamond dealing to avoid tedious re-assaying of the diamonds.

Suftaja, or demand notes at a distance. These were used, like the later European bills of exchange, to transfer money over long distances. Under Muslim law, a *suftaja* was a "loan of money in order to avoid the risk of transport." *Suftaja* had been in widespread use at least since ancient Persia. Unlike many bills of exchange, they were payable in coin (by weight) on demand rather than on a specific date. They cost a fixed fee rather than interest, although the fee could vary depending on the distance between cities without violating usury laws.

Hawala, or an order to pay. This was similar to a modern check, but more cumbersome. *Hawala* was an order to a third party to pay the recipient in coin. In legal form, it was a delegation of a debt from the maker to the payer, and had to be made before a notary to verify the payer's assent.

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Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

"Reading material that is eclectic, challenging and endlessly fascinating." -- Sean McGrath, Propylon

"Like most blogs worth my attention, this blog is updated only infrequently. That is because the authors of blogs worth my attention only post when they have something to say that is true, relevant and not already known by their audience. Most of the human race does not have the skill to know when an idea has these three properties. The skill is particularly rare in the fields of politics and economics, which is why this blog is such a rare and valuable thing." -- Richard Hollerith

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Three big differences between Muslim commercial payments at their zenith and the later European practices that gave birth to the industrial revolution and modern capitalism were:

(1) The Muslims did not combine deposit banking with loans of deposits. One consequences was no market for commercial paper by which the ongoing costs of a business (especially wages and overhead) could be financed.

(2) Perhaps related to (1), the lack of large commercial organizations such as the later Dutch and British India companies. For example, Arab trading ships , while common from the Mediterranean to Indonesia, tended to be owned by individuals.

(3) Stricter enforcement of usury laws (perhaps also the cause of (1)). This was also a problem in Europe until the 14th century Genoese, among others, developed contracts based on bills of exchange that essentially mimicked loans with interest but without overtly charging interest. The *saftaja* and *hawala* by contrast were more rigid forms that could not be varied to hide interest without attracting the wrath of clerics.

Despite the advances they later made, it's clear that Europe did not come up with their 14th century commercial innovations from scratch. Rather, Italy and the Hanseatic cities, and later the Dutch and the English, stood on the shoulders of giants -- on commercial practices, institutions, and techniques that had been evolving in the Middle East since the clay commercial documents of ancient Sumer.

Posted by Nick Szabo at 1:33 PM

4 comments:

beaujard said...

Are you sure that there were no loans of deposit sums of money by bankers ?

2:16 AM

Nick Szabo said...

There were probably some such loans, but they were probably not legal. "Bankers also accepted money on deposit for safekeeping although, unlike their European counterparts, they were not supposed to invest it." Janet L. Abu-Lughod in Before the European Hegemony, pg. 222, citing Udovitch, Abraham L. (1979),"Bankers Without Banks: Commerce, Banking, and Society in the Islamic World in the Middle Ages" The Dawn of Modern Banking, New Haven. Conn.: Yale University Press,pgs. 255-74.

7:24 AM

CharlyM said...

You are writing: Suftaja had been in widespread use at least since ancient Persia. Could you specify the earliest evidence, a more precise time?

12:19 PM

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Anonymous said...

Won't you wonder if somebody says he doesn't know what is a software company ? Am sure you will fall off from your chair. But believe me it is true. There still are people in third world countries who don't know anything about software development, web application development or internet. So those who are not really aware about these buzzing things, try to find out what is a tech-world of Internet.

8:20 AM

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